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Vietnam: Efforts to Boost Overseas Remittances [redacted]

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Summary

Concerned about a worsening foreign exchange shortage, Hanoi is actively and successfully seeking foreign currency from Vietnamese abroad. Last fall it eased restrictions on the inflow of hard currency and began a drive among overseas Vietnamese associations--especially in France and probably in the United States--to convince its former citizens to send more cash to families at home. If Hanoi guarantees that the recipients of the funds will have access to them on favorable terms, we expect official remittances will increase substantially this year--possibly to \$50-\$60 million compared with less than \$30 million in 1984. Such an increase would among other things provide Vietnam the option of settling its \$20 million in arrears with the IMF and removing the unprecedented suspension the Fund imposed in January. [redacted]

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The Role of Remittances in the Vietnamese Economy

Since 1980 Hanoi has alternately encouraged and discouraged overseas Vietnamese from sending cash to relatives at home. In 1980-81 the government set up official and unofficial cash remittance offices in all large overseas Vietnamese communities, increased the exchange rate applicable to official remittances from 40 to 60 dong per US dollar, and pressured citizens to write to relatives abroad for funds, according to Vietnamese and

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foreign press reports.* To encourage overseas relatives to send cash rather than goods, Hanoi also limited the yearly receipt of parcels to three per family, and, [redacted] 25X1 substantially increased customs duties and even condoned theft of parcels at customs points. [redacted] 25X1

These measures proved successful for a time. Official remittances increased from about $20 million in 1980 to nearly $50 million in 1982, equal to about a third of Vietnam's hard currency export earnings, according to the International Monetary Fund. This increased inflow, we believe, helped delay the depletion of Hanoi's foreign exchange coffers for at least a year.** [redacted] 25X1

Internal security concerns, however, led Hanoi to tighten procedures governing the receipt and disbursement of remittances in early 1983. The government required recipients of overseas remittances to register and to hold a certificate listing persons authorized to send them cash. Moreover, Hanoi restricted the amount an individual could receive from abroad to $100 per quarter--in Vietnamese currency--and required that any excess funds be left in government banks to earn nominal interest. Families in Vietnam also reported that officials often cited "technical reasons"--such as use of the wrong village number--to deny funds to intended recipients. Such funds were probably confiscated and used to supplement Hanoi's limited tax revenue. [redacted] 25X1

Widely reported in overseas Vietnamese communities, these restrictions led to a sharp drop in official remittances in both 1983 and 1984. Preliminary statistics indicate that Hanoi earned less than $30 million from remittances last year. [redacted] 25X1

[redacted] 25X1

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*See annex for a description of remittance channels and procedures. [redacted] 25X1

**We believe two-thirds to three-quarters of foreign cash remittances come from the 450,000 Vietnamese in the United States. Press speculation that remittances from the United States total as much as $100-$200 million annually, however, is contradicted by Vietnam's depleted foreign exchange reserves and its inability to make even token payments on its hard currency foreign debt for the past two years. [redacted] 25X1

[redacted] 25X1

[redacted] 25X1

Foreign Exchange Crunch Spurs Liberalization Measures

The sharp drop in remittances coincided with Vietnam's deteriorating external finances. By mid-1984:

-- Hard currency reserves had fallen to about $15 million.

-- Foreign debt arrears to non-Communist countries totaled about $350 million.

-- Hard currency export earnings, which had grown by about 10 percent in 1983, stagnated at best.

-- The IMF, whose financial support is necessary for access to Western commercial credits, threatened to suspend Vietnam for refusal to pay $25 million in arrears. (Despite partial payment by Hanoi, the Fund suspended Vietnam's borrowing privileges in January 1985--the first time it has taken such action against a member.) [redacted] 25X1

These financial developments apparently renewed the internal debate over economic contacts with the West. Last July a plenum of the Communist Party Central Committee urged efforts to boost foreign exchange earnings from all sources, according to the Vietnamese press, and stressed the need to increase trade with the West, attract tourists, and stimulate overseas remittances. [redacted] 25X1

The only concrete steps Hanoi has taken thus far to increase foreign exchange earnings, however, involve overseas remittances. [redacted] 25X1 Hanoi in September liberalized the conditions under which Vietnamese citizens could receive money from abroad. The exchange rate for overseas remittances was raised from 60 to 100 dong per US dollar, although this remains well below the black market rate of approximately 150-200 dong per dollar. An urban resident may now receive up to $150 per quarter--a 50 percent increase, while rural dwellers may receive the equivalent of $120.* Moreover, new rules allow Vietnamese to receive up to an additional $200 a quarter for extraordinary expenses such as illness, weddings, and house repair--with prior government approval. Hanoi is also attempting to streamline the remittance disbursement process, according to the Vietnamese press, and in addition it will pay higher interest rates on funds left in government banks. [redacted] 25X1

Hanoi quickly took steps to publicize its new regulations among Vietnamese abroad, probably using the Central Office for

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*A typical government employee receives the equivalent of $40 a quarter in salary and subsidies, based on the exchange rate of US$=100 dong. [redacted] 25X1

[redacted] 25X1

Overseas Vietnamese--an agency set up in 1982 to inform overseas Vietnamese associations of changes in government policy. Speakers at an October meeting of the Vietnamese Medical Association in France explained the new remittance procedures and advised using a Hanoi-connected finance company rather than French banks to reduce red tape and taxes. [redacted] 25X1

More Cash for Hanoi?

We believe that the rapidly spread news of liberalized regulations will spur increased remittances this year. The new regulations are also likely to encourage refugees to send funds directly through the Vietnamese banking system rather than use the money to buy goods which are then mailed to Vietnam and sold on the black market. [redacted] 25X1

Preliminary evidence indicates substantial growth in remittances in the last two months of 1984. We believe the inflow may reach $50 to $60 million in 1985, exceeding the remittances received in 1982. Such an increase, while falling far short of Vietnam's total hard currency needs, would make Hanoi's management of its external finances a bit easier. For example, Vietnam will probably need hard currency to import 100,000-200,000 tons of rice in the next few months because of last year's disappointing crop. [redacted] 25X1

Any remaining foreign exchange will probably be used to reduce Hanoi's arrears to the IMF in hopes of reversing the January suspension. The IMF decision almost certainly assures that Vietnam will remain unsuccessful in its attempts to arrange a multilateral rescheduling of its $1.7 billion debt to non-Communist countries. Hanoi's default on this debt over the past two years has virtually eliminated access to Western trade credits, further cutting key imports such as fertilizer and spare parts. [redacted] 25X1

The prospects for hard currency remittances over the longer term depend largely on whether Vietnam can guarantee that its citizens quickly receive most of the funds intended for them.* Curbing local corruption will be necessary in this regard. Party hardliners, who are trying to regain control of economic policy, oppose increasing commercial and financial contacts with the West and may find the means to thwart the program. Nonetheless, if moderates in the party prove able to maintain the recent reforms,

*Rampant inflation, now at 50-60 percent annually, will soon reduce the domestic purchasing power of the funds. Growing remittances, moreover, will probably boost inflation by increasing purchasing power faster than the devastated economy can turn out goods. [redacted] 25X1

[redacted] 25X1

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Vietnam will probably see a continued rise in hard currency inflows from increasingly affluent Vietnamese communities in the United States and elsewhere. Inflows of $100 million annually by 1987 are not out of the question. 25X1

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Annex

The Official Transfer Process

Press [redacted] reporting indicates that most foreign currency sent to individuals and families in Vietnam is transmitted through official Vietnamese banking or postal channels. We believe most remittances are sent ultimately through the Vietnamese Foreign Trade Bank. The government then converts the funds into Vietnamese currency and keeps the foreign exchange. The dong account is transferred to the State Bank of Vietnam, which then cables the funds to a branch bank in the recipient's district. [redacted] 25X1

[redacted] 25X1

The main channels of currency transfer are:

Commercial Banks. Money orders and checking account drafts from the United States, Europe, and Australia are cabled through local commercial banks to Vietnam's Foreign Trade Bank. Most Vietnamese communities have central collection points which accumulate funds before they are wired to Vietnam. Money sent through the Vietnamese postal system is also coverted to local currency by government officials. [redacted] 25X1

Businesses and organizations connected to Hanoi. Some currency operators in overseas Vietnamese communities, pretending to be anti-Hanoi, wire money to Canadian or French companies to mask their connection with the Vietnamese Government. The money is then cabled to Vietnam's Foreign Trade Bank for distribution. [redacted] 25X1

Asian Finance Companies. Overseas Vietnamese mail cash or checks to finance companies in Hong Kong or Singapore. The companies then cable the funds to the Vietnamese Foreign Trade Bank for distribution. [redacted] 25X1

Storefront Currency Shops. Overseas Vietnamese provide money to a shopkeeper who assembles parcels with the funds and mails them to Vietnam. The recipients then sell the goods on the black market for Vietnamese currency. [redacted] 25X1

The first three methods generate foreign exchange for Hanoi, the fourth does not. The fourth method, however, probably provides the recipient with the most dong per dollar spent by the refugee abroad, according to press reports. [redacted] 25X1

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